12.4.17

WHEN WILL THE RUBBER MEET THE ROAD?

At the beginning of November, we increased both our stock market exposure and the amount of interest that our portfolios receive on a monthly basis. At the same time, we tested our portfolio, simulating a variety of difficult financial environments, to make sure that if the stock market retreated from its current unmerited highs that we would still be able to preserve your hard-earned capital. Both of these tactics worked in your favor over the last thirty days.

As of the end of November, we experienced a solid of month of returns with very little volatility in the face of huge waves of optimism resulting from what is most certainly ***NOT*** a simplified tax proposal. And, if you questioned the fragility of the stock market all you had to do was watch the Dow Jones Industrial Average just prior to noon on the first of December to see a drop of 350 points in only a few minutes as word spread like a wildfire that President Trump's former national security advisor, Michael Flynn, would plead guilty to lying to the FBI about his conversations with the Russian ambassador. With the jaw dropping decline on Friday, our portfolio had one of its best performance days of the year. That performance was then compounded as the monthly income stream that is generated by our fund selection started to be deposited into the portfolios, with more to come later this month. This should work together to make December's statement the best all year.

The Flynn bombshell – which may amount to nothing – showed just how quickly markets in this environment can turn. With many investors "driving" well over normal stock market speed limits, the odds of an accident with no escape plan can only increase.

Over the last ten years, stocks have relied on Federal Reserve policies to foster higher prices through a series of interventions – methods which have been far beyond the normal scope of the Fed's mandate. Through our central bank actions, corporations have experienced the highest level of Federal Reserve coddling in history. By skipping reinvestment in their own products and workers, many companies were able to foster stock price growth by borrowing at the Fed's exceedingly low interest rates and use that debt to finance buybacks of their own stock.

However…

While stock prices have grown, without an increase in their profitability many publicly traded companies have been forced to shed workers and decrease plant production which causes shrinkage in the vital link of consumption from the declining middle class.

Worth mentioning is the number of Federal Reserve speakers who have recently commented on the excessive financial imbalances. Even outgoing Federal Reserve Chairperson Janet Yellen publicly noted that asset valuations are high. Now investors are looking to the next stimulus in the form of tax cuts – rather than the health of the actual economy – to replace one sugar daddy with another. One must ask the question… If large corporations need yet another government handout to keep up the charade of ever growing stock prices then what would our economy ***actually*** look like without multiple rounds of quantitative easing which are now followed with the new carrot-on-a-stick of tax cuts? A near-term look sees market optimism over possible tax cuts but Congress still faces another frantic week of wrangling, not only over taxes but also about a possible government shutdown over the debt ceiling because funding for Federal agencies is set to expire on December 8th, as well as immigration and gun policies.

Throughout the last week of November stock markets rose then sank and eventually rose again, all on hopes for the Senate's passage of their tax bill. The darlings of the financial media had their worst week of the year – Facebook was down 4.2%, Amazon down 2%, Apple down 2%, and Netflix down 4.6% – while the high-flying emerging market complex fell nearly 4% with Chinese debt and economic imbalances being the biggest contributors. The biggest rally, though, was in the troubled retail sector which rose nearly 5% last week and is now barely even for the year. Part of that rally was due to solid Black Friday sales and an even more impressive jump in Cyber Monday online sales. With some much needed relief in this battered sector, which has seen 6700 store closings and 300 retailers file for bankruptcy, the outlook for what happens once the biggest retail season comes to a close remains challenging, as consumers are left with debt to pay off and higher healthcare costs to contend with. At this juncture, technical indicators reflect a stock market that is highly overbought but may continue rising based on the expectation that the tax bill will be fully passed – even though there are scant details of what is actually in the bill – but questions remain on what kind of follow-through can be expected going in to the new year.

With earnings season winding down again, government policies surrounding taxes, debt ceilings and immigration will take center stage. From the economic front, we will see market-moving reports on the jobs front as the National Employment Report is released on Friday morning, with current projections at 200,000 new jobs created. Other reports for the week will focus on consumer credit trends, factory orders, and the American service sector.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

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5. Investors FastTrack is the source for all quoted performance data.
6. The fast price swings in commodities and currencies will result in significant volatility in an investor’s holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.
7. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.
8. The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.
9. The Standard & Poor’s 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
10. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.
11. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
12. CBOE Volatility Index is a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).
13. All indices are unmanaged and cannot be invested into directly.